



CALIFORNIA

High-Speed Rail Authority

Expenditure Authorization Request

Brian Annis
Chief Financial Officer

Daniel Horgan
Deputy Chief Operating Officer

March 16, 2023

SUMMARY

- Existing Board Policy HSRA11-001, directs Board approval of the annual Fiscal-Year Budgets and of the multi-year Program Baseline Budgets.
- In December 2021, the Board approved the multi-year budget, when it approved an Expenditure Authorization of \$17.937 billion.
- Staff recommends Board approval of the new Expenditure Authorization to allow important civil construction work to advance on the 119-mile segment between Madera and Poplar Avenue, and to incorporate the recent federal RAISE Grant award.
- Staff anticipates bringing future Program Baseline Budgets to the Board as additional federal grants are received and/or additional work is ready for procurement.

BACKGROUND: DEC 2021 EXPENDITURE AUTHORIZATION

- In December 2021, the Board approved an Expenditure Authorization, instead of a full Program Baseline Budget, to allow additional time for the following:
 - Action by the State Legislature to approve the remaining Proposition 1A funds;
 - New grant awards from the federal government;
 - Resolution to multiple CP 1 and CP 2-3 commercial issues, schedules, and other issues
- Advancement has been made in each of these areas with the Proposition 1A funds appropriated, and new federal grants being received and under consideration
- As anticipated, Staff is returning to the Board with an Expenditure Authorization adjustment for CPs 1-4, and to incorporate the new federal grant.

BACKGROUND: DEC 2021 EXPENDITURE AUTHORIZATION

Item	Expenditure Authorization December 2021 (\$ in billions)	Notes
Central Valley Segment (CVS) including Track and Systems	13.649	CVS defined as 119 miles from Madera to Poplar Avenue, including contingencies for each construction package, includes ROD cost for CVS
State Route 46 / New Federal RAISE Grant	0.076	With the new \$24 million federal grant awarded in November 2021, this project will be separately tracked.
Phase 1 Environmental (ROD) Balance	0.841	ROD balance for Phase 1 San Francisco to Los Angeles / Anaheim segments excluding CVS
Bookends/Early Investments	1.298	Includes Caltrain Electrification, San Mateo Grade Separations, Rosecrans/Marquardt Grade Separation and LinkUS
Other Funded Scope	1.895	Remaining Program-wide Support, Contingency, Interim Use, Project Reserve, historical Phase 2 expenditures
Bakersfield/Merced Extensions	0.178	Pre-construction activities: examples include preliminary engineering, right-of-way mapping, and design advancement
Total	17.937	

- Expenditure dollars are in Year of Expenditure.
- Values have been rounded to the nearest million. Totals may differ due to rounding.

BACKGROUND: ADVANCEMENT SINCE DEC 2021

- Since the December 2021 Expenditure Authorization, the Authority has worked with its design-build contractors to resolve and incorporate commercial issues into the contracts, and to finalize Revised Baseline Schedules.
- All while inflation has been at 40-year highs and third-party issues have extended completion times, both have added to costs.
- CP 4 is the most advanced segment, with planned substantial completion in the summer of 2023.
- CP 1 and CP2-3 are now advanced to the level of project definition that CP 4 was one year ago. As such, those contracts are more fully defined, uncertainty has been reduced, and cost estimates are updated. Risks remain but management mitigations have been prepared and are being acted upon.
- Over the past year, staff has updated the Finance and Audit Committee monthly on executed change orders and contingency balances.

COST ISSUES FOR COMPLETING CIVIL CONSTRUCTION

Finishing the 119-mile Segment Construction Packages:

- The Authority now has over 96 percent of right-of-way in hand, has completed design of the 119-mile HSR civil infrastructure, and has completed 53% of utility relocations, with another 21% underway. The new estimates for this existing construction work represent updates from major final design elements being incorporated into construction contracts via change orders and updates due to global inflation and new construction schedules – due in part to COVID-19.
- The following pages discuss the cost issues for each construction package, and are generally driven by these three issues:
 - *Higher global inflation*
 - *Scope increases for third-party work and work transferred into civil contracts*
 - *Additional contingency*

COST ISSUES FOR CONSTRUCTION PACKAGE 1

- Seven of eight major commercial issues noted in the 2022 Business Plan have been resolved, and the remaining issue (Church Avenue) is close to being finalized .
- Inflation has affected the cost of change orders.
- New scope, “Sweeper Package” and “SR 99 Intrusion Protection Barrier” scope was added to the TPZP contract.
- Utility design and other third-party issues have increased scope and costs.
- Time impacts for the new December 2025 substantial completion schedule affect the design-build contract and related contracts.
- Additional risk contingency related to above.

COST ISSUES FOR CONSTRUCTION PACKAGE 2-3

- Three of four major commercial issues noted in the 2022 Business Plan have been resolved, and one is in arbitration (Cross Creek).
- Inflation has affected the price of these change orders.
- Utility design, freight railroad, and other third-party issues have increased scope and costs.
- Time impacts for the new March 2026 substantial completion schedule affect the design-build contract and related contracts.
- Additional risk contingency related to above.

COST ISSUES FOR CONSTRUCTION PACKAGE 4

- Inflation/Escalation has affected the price of change orders.
- Utility design, freight railroad, and other third-party issues have increased scope and costs.
- Additional risk contingency related to above.

SUMMARY OF CP COST INCREASES

In Millions

Construction Package (includes Design-Build contracts, and all other CP costs)	Current Budget (based on Dec 2021 Expenditure Authorization)	Additional Cost (Known costs above budget)	Total Contingency (Additional contingency for risk - for all CP scope)	Change (from current budget)	New Total (after requested changes)
CP 1	4,844	453	392	845	5,689
CP 2-3	3,833	687	463	1,150	4,983
CP 4	1,206	27	51	78	1,284
Subtotal CP's	9,883	1,167	906	2,073	11,956
All other approved budget scope	8,054	No budget change, but incorporates the award of the \$25 million RAISE grant for Merced Extension Design			8,054
TOTAL	17,937	1,167	906	2,073	20,010

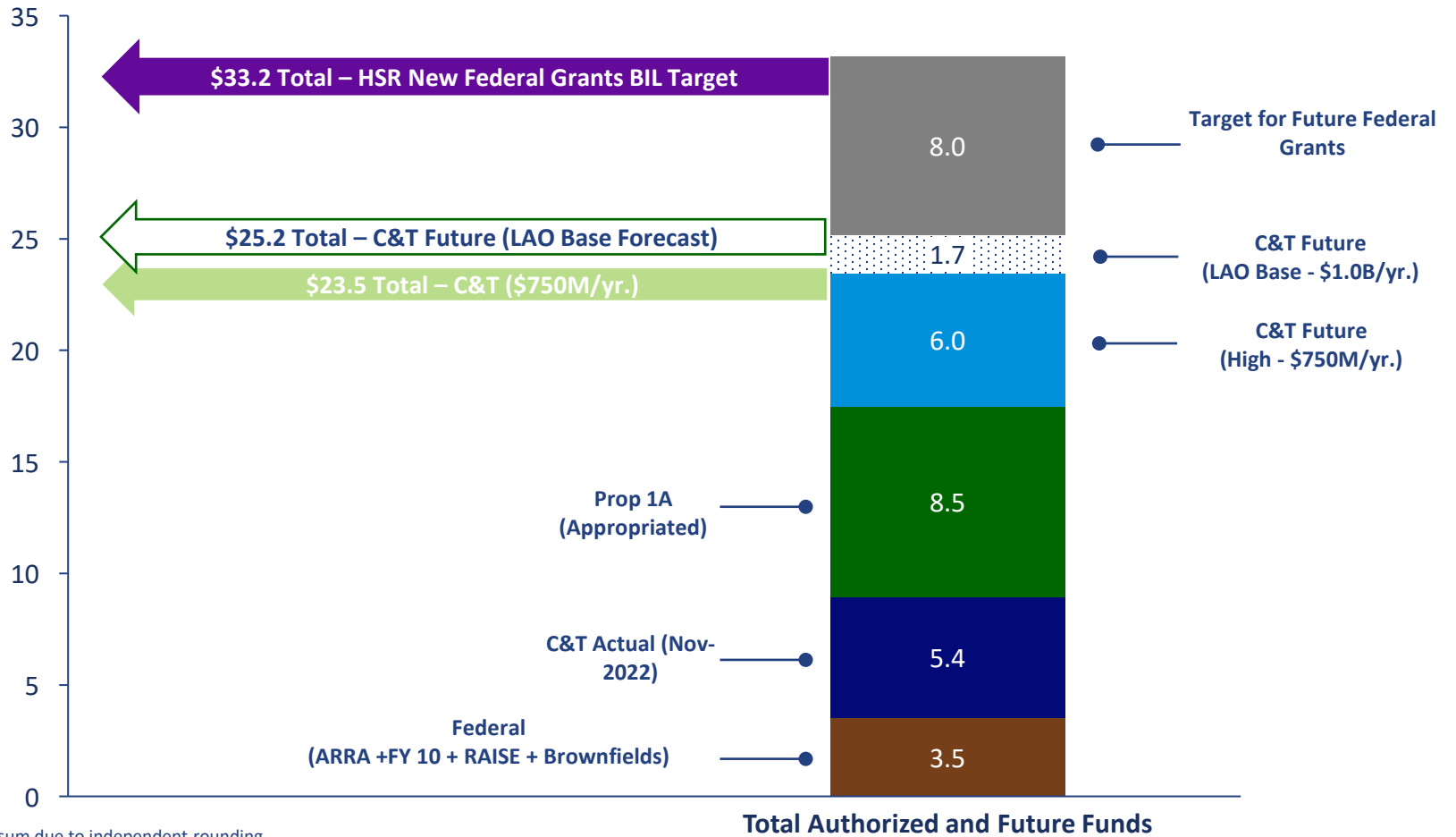
PROPOSED EXPENDITURE AUTHORIZATION

Item	Expenditure Authorization March 2023 (\$ in billions)	Notes
Expenditure Authorization December 2021	17.937	Existing Expenditure Authorization including contingencies
CP 1	0.845	Includes Design-Build, PCM, and other scope for CP1 to account for Additional Known Costs and Risk to align with Revised Baseline Schedule
CP 2-3	1.150	Includes Design-Build, PCM, and other scope for CP2-3 to account for Additional Known Costs and Risk to align with Revised Baseline Schedule
CP 4	.078	Includes Design-Build, PCM, and other scope for CP4 to account for Additional Known Costs and Risk
RAISE GRANT	0	No Budget Change, incorporates \$25M in grant funds
Total	20.010	New Total Expenditure Authorization

- Expenditure dollars are in Year of Expenditure.
- Values have been rounded to the nearest million. Totals may differ due to rounding.

REVIEW OF PROGRAM FUNDING

\$ in billions



*Totals may not sum due to independent rounding

**Legislative Analyst's Office (LAO) December 2021 C&T Revenue Base Case Forecast for FY22-23 less "off the top" reductions

***Portion of future C&T revenues may be used to fund admin support activities

****Portion of Prop 1A will be used to fund admin support activities

CAPITAL OUTLAY AND EXPENDITURES REPORT

Capital Outlay (\$ in millions) - TOTAL PROGRAM EXPENDITURE AUTHORIZATION

	Expenditure Authorization as of December 2021*	Program to Date Expenditures as of January 2023	Expenditure Authorization as of March 2023	\$ Change increase/ (decrease)	% Change increase/ (decrease)
	A	B	C	(C-A)	(C-A)/A
Bond Fund (Prop 1A) - Project Dev. Phase I	\$ 564	\$ 564	\$ 564	\$ -	0.0%
Bond Fund (Prop 1A) - Project Dev. Phase II	\$ 42	\$ 42	\$ 42	\$ -	0.0%
Federal Trust Fund (ARRA) - Project Dev	\$ 466	\$ 466	\$ 466	\$ -	0.0%
Federal Trust Fund (Brownfields) - Project Dev	\$ 1	\$ 0	\$ 1	\$ -	0.0%
Cap and Trade - Project Dev	\$ 793	\$ 306	\$ 768	\$ (25)	(3.2%)
Federal RAISE Grant - Merced Extension Design	\$ -	\$ -	\$ 25	\$ 25	100.0%
PROJECT DEVELOPMENT SUBTOTAL	\$ 1,866	\$ 1,379	\$ 1,866	\$ -	0.0%
Bond Fund (Prop 1A) - Construction	\$ 2,609	\$ 2,670	\$ 6,809	\$ 4,200	161.0%
Federal Trust Fund (ARRA/FY10) - Construction	\$ 3,009	\$ 2,080	\$ 3,009	\$ -	0.0%
Cap and Trade - Construction	\$ 9,130	\$ 3,234	\$ 7,004	\$ (2,126)	(23.3%)
Federal RAISE Grant - Construction	\$ 24	\$ -	\$ 24	\$ -	0.0%
CONSTRUCTION SUBTOTAL	\$ 14,772	\$ 7,985	\$ 16,846	\$ 2,073	14.0%
Bond Fund (Prop 1A) - Bookend Projects	\$ 1,100	\$ 432	\$ 1,100	-	0.0%
Cap and Trade - Bookend Projects	\$ 198	\$ 198	\$ 198	-	0.0%
LOCAL ASSISTANCE SUBTOTAL	\$ 1,298	\$ 630	\$ 1,298	\$ -	0.0%
Expenditure Authorization	\$ 17,937	\$ 9,993	\$ 20,010	\$ 2,073	11.6%

*Includes administrative adjustments between Construction and Project Development

WHAT HAS BEEN ACCOMPLISHED?

Accomplishments:

- CP4 first CP contract planned to be completed in the summer of 2023
- 12 type-two structures open to the public by the end of 2022
- 1,318 construction workers deployed in October 2022 (highest ever)
- Revised Baseline Schedule (RBS) finalized on all CP's, TIA's for CP1 and CP2-3 received and are being analyzed
- Significant outstanding commercial issues resolved and now in the contract
- Increased reliability and delivery of ROW parcels, now 96% of needed parcels are delivered
- Utility designs are more than 90% complete; relocations are more than 50% complete
- Implemented Task Force to actively manage third-party challenges
- Developed closer and more effective relationship with resource agencies to further environmental mitigations

HOW DO WE PLAN TO MANAGE RISK TO DELIVER ON-TIME AND WITHIN BUDGET?

Goals:

- Finish on-schedule (to Revised Baseline Schedules)
- Finish within budget
- Maintain high quality
- Maintain strong safety record
- Enable strict environmental compliance
- Enhance positive public perception

Actions:

- Increased transparency into progress through detailed trackers and coordination discussion, allowing early escalation if necessary
- Proactive schedule management to allow for timely mitigations
- Increase scrutiny of individual RBS changes
- Increase governance measures to bring more control to the use of contingency
- Identify and resolve third-party agreements through Third-Party Task Force and Executive level discussions (e.g. AT&T, UP on IPB)
- Increase governance for change orders and dispute resolution to achieve favorable outcomes for the Authority
- Monitor and proactively manage major cost impacts, such as inflation, through data informed decision making
- Hold contractors accountable for design quality
- Develop team members through rigorous training and evaluation
- Benefit from opportunities to advance work where site access is available
- Achieve scope definition to reduce scope changes prospectively

CONCLUDING REMARKS

In accordance with existing Board policies, Staff recommends Board approval of the below action to increase the Expenditures Authorization by \$2.073 billion to a new total amount of \$20.010 billion, to budget additional funds to complete Construction Packages 1-4:

The Board approves as an Expenditure Authorization the \$2.073 billion addition to the Program Baseline from \$17.937 billion to \$20.010 billion, that aligns spending with expected program revenues and spending priorities.

THANK YOU

Comments and Questions

